IN THE

Supreme Court of the United States

OCTOBER TERM, 1940.

No. ————.

PEERLESS EQUIPMENT COMPANY, *Petitioner,*

v.

W. H. MINER, INC., *Respondent.*

On Writ of Certiorari to the United States Circuit Court of Appeals for the Seventh Circuit.

BRIEF IN SUPPORT OF PETITION FOR CERTIORARI.

The opinion of the Circuit Court of Appeals for the Seventh Circuit is unreported but is reproduced as an appendix hereto and is to be found at page 568 of the record. The opinion of the District Court is unreported but is to be found at pages 517 and 518 of the record. The Master's report is to be found at pages 475 to 501 of the record.

The United States Circuit Court of Appeals for the Seventh Circuit has restricted the rule of this Court in *Gar-*

retson v. *Clark*, 111 U. S. 120; *Dowagiac* v. *Minnesota*, 235 U. S. 641; *Sheldon, et al.* v. *Metro-Goldwyn Pictures Corp., et al.*, 309 U. S. 390; *Egry Register Co.* v. *Standard Register Co.*, 23 Fed. (2d) 438; and *Metallic Rubber Co.* v. *Hartford Rubber Co.*, 275 Fed. 315.

If we assume for purposes of argument that because of confusion caused by failure to keep records, petitioner should account for all the gears which it sold prior to July, 1937, despite the fact that many of these gears did not infringe, the decision of the Circuit Court of Appeals is contrary to rules of law established by this Court by awarding all of petitioner's profits to respondent in face of the facts that the patent in suit is a mere improvement patent, and that the entire market value of petitioner's gears was not attributable to any use by petitioner of the said improvement.

The Circuit Court of Appeals for the Seventh Circuit says that petitioner's non-infringing gears do not have as much capacity as the gear that was held to be infringing, that is, one having a crown in excess of a few thousandths of an inch.

This is a conclusion of fact that is not supported by the evidence but, aside from that, if we were to concede, *arguendo*, that a gear without the infringing convexity is not so impressive, from an initial capacity standpoint, as one with the convexity, the fact still remains that the gear without the convexity has adequate capacity, it meets all official requirements and has sold and still sells at the same price, and higher, to the same customers who bought and used petitioner's gears with a convexity. These facts permit of no doubt that the basic, old parts of petitioner's gear, in and of themselves, created a substantial part, if not all, of the profits petitioner realized from the sale of gears. That part belongs to petitioner and not to respondent and it was wrong to award it to respondent. It was respondent's duty to prove what part, if any, of petitioner's entire profits, was attributable to petitioner's use of the

infringing convexity. That is all that respondent was entitled to recover.

Sheldon, et al. v. *Metro-Goldwyn Pictures, et al.*, 309 U. S. 390;
Dowagiac v. *Minnesota*, 235 U. S. 641; and
Black v. *Thorn*, 111 U. S. 122.

Respondent made no effort to prove what part of petitioner's profits belonged to respondent. It therefore failed to establish any right to a recovery of profits. That is the law clearly announced by this Court in *Garretson* v. *Clark*, 111 U. S. 120; *Dowagiac* v. *Minnesota*, 235 U. S. 641; and *Westinghouse* v. *Wagner*, 225 U. S. 604.

The Circuit Court of Appeals for the Seventh Circuit arbitrarily says that respondent could not have made an apportionment. Plaintiff made no showing that an apportionment was impossible. Under the decisions of this and other Courts, apportionment can be based upon expert testimony, but no expert testimony was offered by the plaintiff.

In *Dowagiac* v. *Minnesota*, 235 U. S. 641, this Court said:

> "In so far as the profits from the infringing sales were attributable to the patented improvements they belonged to the plaintiff, and in so far as they were due to other parts or features they belonged to the defendants. But as the drills were sold in completed and operative form, the profits resulting from the several parts were necessarily commingled. * * * It well may be that mathematical exactness was not possible, but, as is shown in Westinghouse Electric & Mfg. Co. v. Wagner Electric & Mfg. Co. supra (pp. 617, 620-622), that degree of accuracy is not required, but only reasonable approximation, which usually may be attained through the testimony of experts and persons informed by observation and experience. Testimony of this character is generally helpful and at times indispensable in the solution of such problems."

This Court recently held to the same effect in

Sheldon v. *Metro-Goldwyn Pictures Corp.*, 309 U. S. 390.

And the Court of Appeals for the Sixth Circuit has so ruled in

> *Egry Register Co.* v. *Standard Register Co.*, 23 Fed. (2d) 438, 441 (C. C. A. 6).

Respondent, however, did offer the testimony of an expert, Mr. Carlton Hill, as to what would be a reasonable royalty in this case. On cross-examination a hypothetical question, based on facts theretofore established by the record, was put and answered as follows:

> "Q. Well, I am consulting you now, Mr. Hill, and my proposition is I can make this gear that you have testified about without the convexity referred to in the patent and therefore it is not infringed, at the same price as I can make it with the convexity; I can sell it to the same people for the same amount of money. Would that have any effect upon the amount of royalty that you would recommend that I pay for a license under the Johnson patent?
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> "A. Of course, if you could do that, I would not recommend that you pay any royalty at all. (R. pp. 33, 34.)"

That admission of respondent's expert, establishes as well as anything could, that the infringing convexity if present on some of petitioner's gears was not and could not be responsible for all of the profits petitioner made in its gear business.

Petitioner, in its own behalf, offered testimony to show that the invention contributed nothing to its profits. It called two experts for this purpose (R. 150, 202).

The record shows that since the decree was entered in July of 1937 railroads have continued to purchase defendant's draft gears not having any convexity; that defendant lost no customers because of the elimination of the convexity after the decree; and petitioner's selling price for non-accused gears, sold after the decree, actually increased (R. 170). Under such a state of facts this Court and the Circuit Court of Appeals for the Second and Sixth Circuits

have refused an award of profits to a plaintiff who was successful on the issues of validity and infringement.

Black v. *Thorne*, 111 U. S. 122;
Egry Register Co. v. *Standard Register Co.*, 23 Fed. (2d) 438, 441 (C. C. A. 6);
Metallic Rubber Co. v. *Hartford Rubber Works Co.*, 275 Fed. 315 (C. C. A. 2);
American Can Co. v. *Goldee Mfg. Co., Inc.*, 31 Fed. (2d) 492; affirmed C. C. A. 2, 31 Fed. (2d) 494.

The authority relied upon by the Circuit Court of Appeals in support of its award of all of petitioner's profits to the respondent is *Hurlbut* v. *Schillinger*, 130 U. S. 472, 32 L. Ed. 1016, 9 Sup. Ct. Rep. 584. That that case is not in point is seen by what this Court there said:

> "It clearly appears that the defendant's concrete flagging derived its entire value from the use of the plaintiff's invention, and that, if it had not been laid in that way, it would not have been laid at all."

That is a statement of what is referred to as the entire market value rule. That rule does not apply here because petitioner sold its gears without the accused convexity as successfully as it sold those with any convexity, both during and subsequent to the accounting period.

In the present case the Circuit Court of Appeals has said:

> "The inclusion of the convexity was not the addition of an attachment but was embraced in the manufacture and was an essential element of Johnson's successful invention." (R. 574)

We see no distinction in principle as between an improvement that is an attachment and one that is an integral addition. This Court has made no such distinction. In *Dowagiac* v. *Minnesota*, 235 U. S. 641, the patented parts of the grain drill were embraced in the drill and were essential parts of the machine. In *Sheldon, et al.* v. *Metro-Goldwyn Pictures, et al.*, 309 U. S. 390, the story was embraced in the motion picture and an essential part thereof.

As to its essentiality, the record clearly proves that the accused convexity did not create the market value of petitioner's gear. If an improvement does not create market value, it is not essential so far as the creation of profits is concerned.

The Circuit Court of Appeals for the Sixth Circuit in *Dowagiac* v. *Brennan*, 162 Fed. 472, held that the patentee there had made an essential invention, stating:

> "But we are of opinion that the circumstances of this case, first, in that in the patented combination no other invention inheres, and that the combinations are not for improvements merely, but substitutes for essential congeries in a drill, and, secondly, that the infringement has been so conducted as to render a distinction of profits impossible, are controlled by principles quite independent of those involved in Garretson v. Clark, and that the plaintiff was entitled to a decree for the profits of the sales of the infringing drills."

This Court, in *Dowagiac* v. *Minnesota*, 235 U. S. 641, considering the same patent in relation to the question of accounting for the profits made by a different infringer, said:

> "We think the evidence, although showing that the invention was meritorious and materially contributed to the value of the infringing drills as marketable machines, made it clear that their value was not entirely attributable to the invention, but was due in a substantial degree to the unpatented parts or features.
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> " * * * It was essential, therefore, that they (the profits) be separated or apportioned between what was covered by the patent and what was not covered by it; for, as was said in Westinghouse Electric & Mfg. Co. v. Wagner Electric & Mfg. Co., supra (p. 615): 'In such case, if plaintiff's patent only created a part of the profits, he is only entitled to recover that part of the net gains.' In the nature of things the profits pertaining to the patented improvements had to be ascertained before they could be recovered by the plaintiff, and therefore it was required to take the initiative in presenting evidence looking to an apportionment. Referring to a like situation, it was said in the case just cited (p. 617): 'The burden of apportionment was then logi-

cally with the plaintiff, since it was only entitled to recover such part of the commingled profits as was attributable to the use of its invention.' "

In *Sheldon, et al.* v. *Metro-Goldwyn Pictures Corp., et al.*, 309 U. S. 390, this Court took pains to point out that the *Dowagiac case* had received careful consideration and that justice requires an apportionment where the plaintiff's invention has not created all of the profits.

The decision of the Circuit Court of Appeals for the Seventh Circuit in the present case does not follow or apply the rule thus laid down by this Court and followed by the Circuit Courts of Appeals for the Second and Sixth Circuits. There is diversity of opinion among the Circuit Courts of Appeals as to the meaning of the rule. The question here presented is of importance because under the decision in this case the rules as to apportionment laid down in leading decisions by this Court are being interpreted as meaning that where a plaintiff does not prove that he has suffered actual damage, he may, by declining to attempt an apportionment, recover all of a defendant's profits, even though his patent be merely for an improvement which did not create those profits. This is neither just nor fair nor in accordance with the decisions of this Court.

It is apparent that the United States Circuit Courts of Appeals of the Seventh, Sixth and Second Circuits are not in accord on the interpretation of the decisions of this Court, and that the questions involved are of public importance and interest.

Respectfully submitted,

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